

Financial Statements

TOWN OF BETHANY BEACH
Bethany Beach, Delaware

Year Ended March 31, 2004
With Comparative Totals for 2003

TOWN OF BETHANY BEACH, DELAWARE

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HEFFLER, RADETICH & SAITTA L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

Independent Auditors' Report

To the Mayor and Town Council
Town of Bethany Beach
Bethany Beach, Delaware

We have audited the accompanying general purpose financial statements of the Town of Bethany Beach, Delaware, as of and for the years ended March 31, 2004 and 2003, as listed in the table of contents. These general purpose financial statements are the responsibility of the Town's management. Our responsibility is to express an opinion on these general purpose financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall general purpose financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the general-purpose financial statements referred to above present fairly, in all material respects, the financial position of the Town of Bethany Beach, Delaware, as of March 31, 2004 and 2003, and the results of its operations and cash flows of its proprietary fund type for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated June 17, 2004 on our consideration of the Town of Bethany Beach's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.



Philadelphia, Pennsylvania
June 17, 2004

TOWN OF BETHANY BEACH, DELAWARE
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS
as of March 31, 2004 with Comparative Totals as of March 31, 2003

	Fund types				Account Groups			Totals 2003 (Memorandum Only)
	Governmental		Proprietary	General		Totals (Memorandum Only)		
	General	Special Revenue		Capital Improvements	Enterprise		General Fixed Assets	
ASSETS								
Cash and Cash Equivalents	\$ 3,104,906	\$ -	\$ -	\$ 25,732	\$ -	\$ -	\$ 3,130,638	\$ 3,469,100
Investments	1,097,628			70,596			1,168,224	754,141
Receivables'								
Taxes	2,637						2,637	5,013
Refuse Fees	4,095						4,095	5,102
Water Fees				221,788			221,788	149,002
Interest	13,164						13,164	-
Other	11,298			1,526			12,824	2,280
Intergovernmental								
Due from Other Funds		96,600					96,600	102,695
Inventory	105,275						105,275	404,416
Prepayments	60,627			5,204			5,204	24,027
Note Receivable - Library	88,855			15,502			76,129	44,888
Restricted Assets:							88,855	133,283
Cash and Cash Equivalents								
Investments		22,793		148,673			171,466	134,086
Fixed Assets								
Accumulated Depreciation			785,339	6,037,568	9,399,486		785,339	1,811,191
Bond Issue costs, Net of Amortization				(1,876,454)			15,437,054	12,544,498
Amounts to be Provided for:							(1,876,454)	(1,727,959)
General Obligation Debt							66,334	61,654
Lease Purchase Obligation								
Compensated Absences Liability							652,735	-
							144,829	202,254
							50,000	50,000
TOTAL ASSETS	\$ 4,488,485	\$ 119,393	\$ 785,339	\$ 4,716,469	\$ 9,399,486	\$ 847,564	\$ 20,356,736	\$ 18,169,671

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS (Continued)
as of March 31, 2004 with Comparative Totals as of March 31, 2003

	Fund Types				Account Groups			Totals 2003 (Memorandum Only)
	Governmental		Proprietary		General		Totals (Memorandum Only)	
	General	Special Revenue	Capital Improvements	Enterprise	General Fixed Assets	Long - Term Debt		
LIABILITIES & FUND EQUITY								
LIABILITIES								
Accounts Payable	\$ 66,318	\$ -	\$ 311	\$ 7,208	\$ -	\$ -	\$ 73,837	\$ 157,330
Employee Withholdings and Accrued Payroll Taxes	34,561	4,969		6,216			45,746	28,347
Accrued Interest			7,409	59,526			66,935	73,706
Due to Other Funds		91,631		13,644			105,275	404,416
Deferred Revenues	169,805	22,687					192,492	224,068
General Obligation Bonds				2,634,649		652,735	3,287,384	2,829,854
Lease Purchase Obligation						144,829	144,829	202,254
Compensated Absences Liability	43,525			24,100		50,000	117,625	100,864
Total Liabilities	314,209	119,287	7,720	2,745,343	-	847,564	4,034,123	4,020,839
FUND EQUITY								
Investment - General Fixed Assets					9,399,486		9,399,486	6,826,521
Contributed Capital				134,581			134,581	448,705
Retained Earnings				1,836,545			1,836,545	1,504,004
Reserved Fund Balance		106					106	(21,989)
Unreserved Fund Balance:								
Designated for:								
Capital Improvements	2,503,467		777,619				3,281,086	3,788,806
Emergency Fund	250,000						250,000	250,000
Undesignated	1,420,809						1,420,809	1,352,785
Total Fund Equity	4,174,276	106	777,619	1,971,126	9,399,486	-	16,322,613	14,148,832
TOTAL LIABILITIES AND FUND EQUITY	\$ 4,488,485	\$ 119,393	\$ 785,339	\$ 4,716,469	\$ 9,399,486	\$ 847,564	\$ 20,356,736	\$ 18,169,671

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
COMBINED STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES - ALL GOVERNMENTAL FUND TYPES
for the Year Ended March 31, 2004 with Comparative Totals for the Year Ended March 31, 2003

	Primary Government			Totals (Memorandum Only)	Totals 2003 (Memorandum Only)
	General	Special Revenue	Capital Improvements		
REVENUES					
Taxes:					
Property	\$ 719,346	\$ -	\$ -	\$ 719,346	\$ 718,204
Rental Real Estate	666,784			666,784	641,914
Transfer	1,134,496			1,134,496	762,812
Parking Revenues	734,414			734,414	699,436
Licenses, Permits and Fees	385,833			385,833	354,965
Police and Alderman Fines	122,198			122,198	128,127
Interest and Rents	69,144	9		69,153	72,297
Refuse Fees	548,377			548,377	541,999
Intergovernmental Revenues:					
Federal		59,597		59,597	102,695
State		359,997		359,997	293,760
Proceeds from Sale of Fixed Assets	44,428			44,428	56,428
Contributions	2,262			2,262	12,888
Miscellaneous	18,438			18,438	23,624
Total Revenues	4,445,720	419,603	-	4,865,323	4,409,149
EXPENDITURES					
Current:					
General and Administrative	704,960			704,960	643,789
Licenses and Inspections	101,628			101,628	97,056
Public Safety	863,285	41,738		905,023	1,030,261
Alderman	32,546			32,546	31,669
Parking	164,667			164,667	157,704
Beach Patrol	283,141			283,141	289,454
Public Works:					
Storm Water Management	116,235	81,987		198,222	-
Streets	278,269	59,172		337,441	463,293
Sanitation	408,474			408,474	362,987
Beach and Boardwalk	144,213			144,213	149,886
Recreation - Entertainment	71,567			71,567	92,400
Capital Outlay		214,611	2,304,864	2,519,475	386,905
Lease Purchase			88,540	88,540	91,346
Debt Service			84,674	84,674	-
Total Expenditures	3,168,985	397,508	2,478,078	6,044,571	3,796,750
EXCESS REVENUES OVER EXPENDITURES	1,276,735	22,095	(2,478,078)	(1,179,248)	612,399
OTHER FINANCING (USES) SOURCES					
Outside Financing			730,000	730,000	-
Operating Transfers In			1,240,358	1,240,358	1,715,056
Operating Transfers Out	(1,208,711)			(1,208,711)	(1,746,704)
Total Other Financing (Uses) Sources	(1,208,711)	-	1,970,358	761,647	(31,648)
EXCESS REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING (USES) SOURCES	68,024	22,095	(507,720)	(417,601)	580,751
FUND BALANCES					
Beginning of Year	4,106,252	(21,989)	1,285,339	5,369,602	4,788,851
End of Year	\$ 4,174,276	\$ 106	\$ 777,619	\$ 4,952,001	\$ 5,369,602

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GOVERNMENTAL FUND TYPES
for the Year Ended March 31, 2004

	General Fund			Special Revenue Fund			Capital Improvements Fund		
	Budget	Actual	Variances Favorable/ (Unfavorable)	Budget	Actual	Variances Favorable (Unfavorable)	Budget	Actual	Variances Favorable (Unfavorable)
REVENUES									
Taxes:									
Property	\$ 728,000	\$ 719,346	\$ (8,654)				\$ -	\$ -	\$ -
Rental Real Estate	625,000	666,784	41,784						
Transfer	650,000	1,134,496	484,496						
Parking Revenues	603,500	734,414	130,914						
Licenses, Permits and Fees	280,500	385,833	105,333						
Police and Alderman Fines	98,000	122,198	24,198						
Interest and Rents	65,000	69,144	4,144						
Refuse Fees	551,400	548,377	(3,023)						
Intergovernmental Revenues:									
Federal									
State									
Proceeds from Sale of Fixed Assets	44,000	44,428	428						
Contributions	4,500	2,262	(2,238)						
Miscellaneous	12,000	18,438	6,438						
Total Revenues	3,661,900	4,445,720	783,820	594,908	419,603	(175,305)	-	-	-
OPERATING EXPENDITURES									
Current:									
General & Administrative	754,628	704,960	49,668						
Licenses and Inspections	111,215	101,628	9,587						
Public Safety	854,325	863,285	(8,960)						
Alderman	35,980	32,546	3,434	105,089	41,738	63,351			
Parking	162,542	164,667	(2,125)						
Beach Patrol	310,227	283,141	27,086						
Public Works:									
Storm Water Mgmt.	145,400	116,235	29,165						
Streets	269,951	278,269	(8,318)						
Sanitation	496,186	408,474	87,712	399,000	59,172	339,828			
Beach and Boardwalk	189,970	144,213	45,757						
Recreation - Entertainment	82,593	71,567	11,026						
Capital Outlay							3,129,311	2,304,864	824,447
Lease Purchase							87,721	88,540	(819)
Debt Service								84,674	(84,674)
Total Operating Expenditures	3,413,017	3,168,985	244,032	504,089	397,508	106,581	3,217,032	2,478,078	738,954
EXCESS REVENUES OVER OPERATING EXPENDITURES									
(balances carried forward)	\$ 248,883	\$ 1,276,735	\$ 1,027,852	\$ 90,819	\$ 22,095	\$ (68,724)	\$ (3,217,032)	\$ (2,478,078)	\$ 738,954

* - Includes \$1,664,311 of previously budgeted expenditures.

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
COMBINED STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES - BUDGET (GAAP BASIS) AND ACTUAL - GOVERNMENTAL FUND TYPES (Continued)
for the Year Ended March 31, 2004

	General Fund		Special Revenue Fund		Capital Improvements Fund	
	Budget	Actual	Budget	Actual	Budget	Actual
						Variances Favorable (Unfavorable)
EXCESS REVENUES OVER (UNDER) EXPENDITURES (balances brought forward)	\$ 248,883	\$ 1,276,735	\$ 90,819	\$ 22,095	\$ (3,217,032)	\$ 738,954
OTHER FINANCING SOURCES (USES)						
Outside Financing						
Operating Transfers In						730,000
Operating Transfers Out	(248,883)	(1,208,711)			1,552,721	(312,363)
Total Other Financing Sources (Uses)	(248,883)	(1,208,711)	-	-	1,970,358	417,637
EXCESS REVENUES AND OTHER FINANCING FINANCING SOURCES OVER OPERATING EXPENDITURES AND OTHER FINANCING USES	-	68,024	90,819	22,095	(1,664,311)	1,156,591
FUND BALANCES, Beginning of Year	4,106,252	4,106,252	(21,989)	(21,989)	1,285,339	-
FUND BALANCES, End of Year	\$ 4,106,252	\$ 4,174,276	\$ 68,830	\$ 106	\$ (378,972)	\$ 1,156,591

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
STATEMENTS OF REVENUE, EXPENSES AND CHANGES IN
RETAINED EARNINGS - PROPRIETARY FUND TYPE
for the Years Ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
OPERATING REVENUES		
Charges for Services	\$ 528,856	\$ 527,074
Other Service Fees	32,308	18,510
Miscellaneous	345	1,119
Total Operating Revenues	<u>561,509</u>	<u>546,703</u>
OPERATING EXPENSES		
Salaries	187,488	172,902
Payroll Taxes	11,808	15,396
Workmen's Compensation Insurance	2,576	10,140
Medical and Life Insurance	25,148	24,510
Pension	17,783	18,761
Administrative Fees	2,355	2,365
Contracted Services	36,435	26,888
Insurance	30,381	11,615
Telephone	6,980	4,144
Electricity	30,799	31,500
Vehicle Repair and Maintenance	35,841	21,002
Engineering	6,266	554
Sewer Service Charge	326	423
Maintenance of Plant	21,519	11,674
Distribution System Maintenance	51,585	33,641
Office Supplies	13,682	8,529
Training Expense	407	512
Miscellaneous	275	412
Supplies	19,419	4,130
Gas for Heating	5,057	2,527
Purchase of Meters	13,721	2,201
Chemicals	39,041	34,926
Uniforms	261	1,390
Depreciation	192,868	177,894
Total Operating Expenses	<u>752,021</u>	<u>618,036</u>
OPERATING LOSS	<u>(190,512)</u>	<u>(71,333)</u>
NON-OPERATING REVENUES AND EXPENSES		
Taxes and Assessments	317,175	292,387
Impact Fees	121,250	71,250
Interest Income	5,633	15,018
Amortization of Bond Issue Costs	(5,320)	(5,320)
Interest Expense	(165,536)	(192,160)
Total Non-Operating Revenues	<u>273,202</u>	<u>181,175</u>
INCOME BEFORE OTHER FINANCING SOURCES	82,690	109,842
OTHER FINANCING (USES) SOURCES		
Operating Transfers (Out) In	<u>(31,647)</u>	<u>31,648</u>
NET INCOME	51,043	141,490
RETAINED EARNINGS		
Beginning of Year	1,504,004	1,188,184
Transfers from Contributed Capital	435,374	245,580
Transfers to Contributed Capital	(121,250)	(71,250)
Contribution of General Fixed Assets to the Town's Public Works Department	<u>(32,626)</u>	<u>-</u>
End of Year	<u>\$ 1,836,545</u>	<u>\$ 1,504,004</u>

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
STATEMENTS OF CASH FLOWS - PROPRIETARY FUND
for the Years Ended March 31, 2004 and 2003

	<u>2004</u>	<u>2003</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Operating Loss	(190,512)	\$ (71,333)
Adjustments to Reconcile Operating Loss to Net Cash from Operating Activities:		
Depreciation	192,868	177,894
Effect of Changes in Operating Assets & Liabilities:		
Receivables	(72,786)	18,603
Due to / (from) Other Funds, net	(242,117)	(291,165)
Inventory	18,823	(8,642)
Prepayments	(4,394)	(4,559)
Accounts Payable	(42,573)	26,935
Employee Withholdings and Accrued Payroll Taxes	3,195	130
Liability for Compensated Absences	<u>11,105</u>	<u>(16,850)</u>
Net Cash Used in Operating Activities	<u>(326,391)</u>	<u>(168,987)</u>
CASH FLOWS FROM NON-CAPITAL AND RELATED FINANCING ACTIVITIES		
Operating Transfers (Out to) In from Other Funds	<u>(31,647)</u>	<u>31,648</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Deferred Financing Costs	(10,000)	-
Taxes and Assessments Received from Customers	317,930	291,286
Impact Fees Received	121,250	71,250
Principal Paid on General Obligation Bonds & Note	(195,204)	(145,043)
Interest Paid on General Obligation Bonds & Note	(179,716)	(188,019)
Acquisition of Fixed Assets	<u>(396,591)</u>	<u>(245,580)</u>
Net Cash Used by Capital and Related Financing Activities	<u>(342,331)</u>	<u>(216,106)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from Sale of Investments	524,824	560,054
Interest Received on Investments	<u>5,633</u>	<u>15,018</u>
Net Cash Provided by Investing Activities	<u>530,457</u>	<u>575,072</u>
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS	(169,912)	221,627
Beginning of Year	<u>344,317</u>	<u>122,690</u>
End of Year	<u>\$ 174,405</u>	<u>\$ 344,317</u>

The accompanying notes are an integral part of the general - purpose financial statements.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Town of Bethany Beach was incorporated in 1901 under the provisions of the State of Delaware, and was reincorporated in 1986. The Town operates under a Council-Manager form of government and provides the following services as authorized by its charter: public safety (police, parking, beach patrol), streets, sanitation, building and licenses, beach and boardwalk, recreation, water, public improvements, planning and zoning, and other administrative services. The Town's general purpose financial statements are prepared in accordance with U.S. generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements. Governments are also required to follow the pronouncements. Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements. Although the Town has the option to apply FASB pronouncements issued after that date, the Town has chosen not to do so. The more significant accounting policies established by GAAP and used by the Town are discussed below.

Reporting Entity

The Town of Bethany Beach is a municipal corporation governed by a seven-member Town Council (elected at large) consisting of the Mayor and six members of Council. In evaluating the Town as a reporting entity, management has addressed all potential component units for which the Town may or may not be financially accountable and, as such, be includable within the Town's general purpose financial statements. According to GASB Statement No. 14, the Town is financially accountable if it appoints a voting majority of an organization's governing board and (1) it can impose its will on the organization or (2) there is a potential for the organization to provide specific financial benefit to or impose specific financial burden on the Town. Additionally the statement requires the Town to consider other organizations for which the nature and significance of their relationship are such that exclusion would cause the reporting entity's general purpose financial statements to be misleading or incomplete. There are no entities that meet the above criteria, therefore, the general purpose financial statements of the Town consist only of the funds of the Town.

Fund Accounting

The accounts of the Town are organized on the basis of fund types and account groups, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts which consist of its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fund Accounting (continued)

The various funds are grouped, in the general purpose financial statements, into generic fund types and broad fund categories as follows:

Governmental Fund Types

Governmental fund types are the funds through which most of the governmental functions are furnished. The funds included are:

General Fund - The General Fund is the general operating fund of the Town. It is used to account for all financial resources except those required to be accounted for in another funds.

Special Revenue Fund - The Special Revenue Fund accounts for revenues derived from earmarked revenue sources. When such needs arise, separate self-balancing funds are established to account for each restricted special revenue source.

Capital Improvements Fund - The Capital Improvements Fund accounts for financial resources to be used for acquisition of capital expenditures.

Proprietary Fund Types

Proprietary fund types account for operations that are financed and operated in a manner similar to private business enterprises. The funds included in this category follow:

Enterprise Funds - The Enterprise Fund is used to account for the operations of the water fund. Enterprise funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises: where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods and services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body had decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Account Groups

Account groups are used to establish accounting control and accountability for the Town's general fixed assets and general long-term debt obligations. Account groups included in this category follow:

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General Fixed Assets - The General Fixed Assets Group accounts for the Town's fixed assets other than those related to the proprietary fund. All fixed assets with a useful life greater than one year primarily used in the Town's general government operations are included in this account group.

General Long-Term Debt Account Group - The general long-term debt group accounts for the Town's long-term debt obligations, lease purchase obligations and the liability for compensated absences exclusive of those associated with the proprietary fund.

Basis of Accounting

Basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the general-purpose financial statements. Basis of accounting relates to the timing of measurements made, regardless of the measurement focus applied.

Governmental fund types utilize the modified accrual basis of accounting. Under this method revenues are recognized when they become measurable and available as net current assets. Property taxes are recorded as revenue when levied even though a portion of the taxes may be collected in subsequent years.

Parking revenues, licenses and permits, police and alderman fines, refuse fees, and certain other miscellaneous revenues are recorded when received in cash because they are generally not measurable until actually received. Intergovernmental revenues are accrued when their receipt occurs soon after the end of the accounting period so as to be both measurable and available.

Expenditures are generally recognized, under the modified accrual basis of accounting, when the related fund liability is incurred. Exceptions to this general rule include principal and interest on general long-term debt which is recognized when due.

Proprietary fund types utilize the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

The Town reports deferred revenues on its combined balance sheet. Deferred revenues arise when a potential revenue does not meet both the "measurable" and "available" criteria for recognition in the current period. Deferred revenues also arise when resources are received by the government before it has a legal claim to them, as when grant monies are received prior to the incurrence of qualifying expenditures. In subsequent periods when both revenue recognition criteria are met or when the government has a legal claim to the resources, the deferred revenues are removed from the combined balance sheet and recognized as revenues.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Encumbrances

Encumbrance accounting, under which purchase orders, contracts and other commitments for the expenditure of funds are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in governmental funds. Encumbrances as of the year end are reported as reservations of fund balance since they do not constitute expenditures or liabilities but serve as authorization for expenditures in the subsequent year. As of the end of the period, the Town had no encumbrances.

Measurement Focus

The **governmental fund types** of the Town are accounted for on a "spending" measurement focus. Accordingly, only current assets and current liabilities are included on the governmental fund types balance sheets, and the fund balances reflect spendable or appropriable resources. The operating statements for the governmental funds reflect increases and decreases in the spendable resources through revenues and expenditures.

The **proprietary fund types** are accounted for on a cost of services measurement focus. All assets and liabilities (current and noncurrent) associated with the activity of the fund are included on their balance sheets. The proprietary fund type operating statements present increases and decreases in total net assets.

The two **account groups** are not funds. They are designed to measure only the financial position of the accounts of the governmental fund types and do not provide results of operations.

Budgets and Budgetary Accounting

The Town Council follows these procedures in establishing the budgetary data reflected within the general purpose financial statements:

- (1) The Budget Committee submits to the Town Council a proposed operating budget for the ensuing fiscal year. The operating budget includes proposed expenditures and the means of financing them.
- (2) Council meets in open session to review the proposed operating budget.
- (3) Not later than the public meeting and prior to the end of the preceding fiscal year, the budget is legally enacted.
- (4) Formal budgetary integration is employed as a management control device during the year for all the operating funds.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

- (5) The budget for the general fund is adopted on a basis consistent with U.S. generally accepted accounting principles (GAAP) as applicable to governments.
- (6) The budgets for the special revenue fund are approved on a program by program basis by the funding agencies.

Cash and Equivalents

For purposes of the statement of cash flows, the Town considers all unrestricted highly liquid investments with an initial maturity of three months or less to be cash and equivalents.

Investments

Investments consist of certificates of deposit and the Delaware Local Government Investment Pool and are carried at cost, which approximates fair market value.

Receivables

Anticipated bad debts are considered to be negligible by the Town management and, accordingly, no provision for bad debts has been included in the general purpose financial statements.

Interfund Receivables/Payables

Advances between funds are accounted within the appropriate interfund receivable and payable accounts. These advances (reported as "due from/to other funds") are considered "available spendable resources."

Inventory

Inventory consists of water distribution system parts and supplies, and is carried at lower of cost or market, and is determined using the first-in, first out (FIFO) method.

Fixed Assets

Fixed assets are valued at historical cost. Donated fixed assets are stated at their estimated fair market value on date donated.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Fixed Assets (Continued)

Fixed assets used in governmental fund type operations (general fixed assets) are accounted for in the general fixed assets account group, rather than in the governmental funds. Public domain ("infrastructure") general fixed assets consisting of certain improvements other than buildings, including roads, bridges, curbs and gutters, streets and sidewalks, drainage systems, and lighting systems, have not been capitalized. Such assets are normally immovable and of value only to the Town. No depreciation has been provided on general fixed assets.

Proprietary fund acquisitions of fixed assets are capitalized at cost. Depreciation of all exhaustible fixed assets used by proprietary funds is charged as an expense against their operations. Accumulated depreciation is reported on the balance sheet of the proprietary fund. Depreciation has been provided using the straight-line method over estimated useful lives of the assets, ranging from 5 to 50 years.

Restricted Assets

Restricted assets consist of cash and equivalents, and investments restricted for specified projects and/or purposes.

Bond Issue Costs

Bond issue costs are a result of the refinancing of the 1989 general obligation bonds. These costs are being amortized over the respective lives of the bonds using the straight-line method.

Amounts to be Provided for Retirement in General Long-Term Debt

The balances in these accounts represent the amounts to be provided from future taxes or other general revenues to retire long-term obligations: general obligation debt, lease purchase obligation, and liability for compensated absences.

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues of \$169,805 consist of permits and fees collected in advance and note receivable of \$88,855 that are available to pay the liabilities of the subsequent periods. In the special revenue fund, deferred revenues of \$22,687 consist of grant funds received in advance.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Compensated Absences

An employee may accumulate 24 days of vacation pay. No sick days are accumulated until an individual's term of employment has exceeded 3 years. Then, an employee may accumulate up to 20 days of sick leave. The Town accrues a liability for compensated absences which meet the following criteria:

- The Town's obligation relating to employees' rights to receive compensation for future absences is attributable to employees' services already rendered.
- The obligation relates to rights that vest or accumulate.
- Payment of the compensation is probable.
- The amount can be reasonably estimated.

In accordance with the above criteria, the Town has accrued a liability for vacation pay and sick leave which has been earned but not taken by Town employees. For governmental funds the long-term portion of the liability for compensated absences is carried within the general long-term debt account group since it is anticipated that none of the liability will be liquidated with expendable available financial resources. The liability for compensated absences of the proprietary fund types is recorded within the funds as an accrued liability in accordance with Financial Accounting Standards Board guidelines.

Interest Capitalization

Interest costs incurred for the acquisition and/or construction of capital assets are capitalized based on the guidelines established by the Financial Accounting Standards Board Statement (FASB). The interest capitalization period begins when the following conditions are present:

- Expenditures for the capital asset have been made.
- Activities that are necessary to get the capital asset ready for its intended use are in progress.
- Interest expense is being incurred.

The amount of interest expense to be capitalized is based on the weighted-average amount of accumulated expenditures for the period multiplied by the interest rate for the obligation incurred specifically to finance the construction of capital assets. During the fiscal year ended March 31, 2004, total interest incurred was \$260,472, all of which are charged to operations.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Use of Estimates

The preparation of general purpose financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses or expenditures during the reporting period. Actual results could differ from those estimates.

Total Columns on Combined Statements-Overview

Total columns on the combined financial statements are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or changes in cash flows in conformity with U.S. generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations of this data have not been made.

Reclassifications

Certain amounts in the prior year financial statements have been reclassified for comparative purposes to conform with the presentation in the current year financial statements.

NOTE 2 - REAL ESTATE TAXES

The tax on real estate in the Town area for the fiscal year ended March 31, 2004 was \$0.08 per \$100 of assessed valuation as levied by the Town Council. The Town bills and collects its own real estate taxes. Delinquent taxes are levied by the Town. The schedule of real estate taxes levied for the fiscal year are:

- June 1 - Levy Date (effective date of enforceable lien)
- September 1 - 2% Penalty for each subsequent month not paid

NOTE 3 - CASH AND INVESTMENTS

The deposit and investment policy of the Town adheres to business practices of Delaware municipalities. Town deposits are held in federally regulated financial institutions whose deposits are covered by the Federal Deposit Insurance Corporation (FDIC), or are collateralized with securities held by the pledging financial institution.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 3 - CASH AND INVESTMENTS (CONTINUED)

Cash and Equivalents

The following summary represents the Town deposits which are fully insured or collateralized with securities held by the Town or its agent in the Town's name (Category 1), those deposits which are collateralized with securities held by the pledging financial institution's trust department or agent(s) in the Town's name (Category 2), and those deposits which are not collateralized, including any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent but not in the Town's name (Category 3) at March 31, 2004.

	Financial Institution Balances				
	Category				Carrying
Description	1	2	3	Totals	Amounts
Cash & Equivalents:					
Unrestricted	\$ 200,000	\$2,930,638	\$ -	\$3,130,638	\$3,130,638
Restricted	-	171,466	-	171,466	171,466
Totals	\$ 200,000	\$3,102,104	\$ -	\$3,302,104	\$3,302,104

Investments

The Town's investments are categorized according to the level of credit risk assumed as of the balance sheet data. Category 1 includes investments that are insured, registered or are held by the Town's agent in the Town's name. Category 2 includes uninsured and unregistered investments held by the counterparty's trust department or agent in the Town's name. Category 3 includes uninsured and unregistered investments held by the counterparty, its trust department or its agent but not in the Town's name. At March 31, 2004, the Town's investments consist of the following:

<u>Description</u>	<u>Category</u>	<u>Amounts</u>	
		<u>Market</u>	<u>Carrying</u>
Certificates of Deposit	1, 2 & 3	\$1,699,810	\$1,699,810
Delaware Local Government Investment Pool	3	253,753	253,753
Total Investments by Type		<u>\$1,953,563</u>	<u>\$1,953,563</u>
Investments:			
Unrestricted		\$1,168,224	\$1,168,224
Restricted		785,339	785,339
Total Investments		<u>\$1,953,563</u>	<u>\$1,953,563</u>

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 4 - INTERGOVERNMENTAL RECEIVABLES

Amount due from other governmental units represent receivables for revenues earned by the Town or collections made by another governmental unit on behalf of the Town. At March 31, 2004, the intergovernmental receivables consist of the following:

<u>Description</u>	<u>Special Revenue</u>
State of Delaware - Department of Natural Resources & Environmental Control	\$ 96,600
Total Intergovernmental Receivables	<u>\$ 96,600</u>

NOTE 5 - INTERFUND TRANSACTIONS

During the course of normal operations, the Town has numerous transactions between funds including expenses or expenditures and transfers of resources primarily to provide services. The financial statements of the governmental and proprietary fund types generally reflect such transactions as transfers.

Transfers that are not considered operating or residual equity transfers give rise to individual fund interfund receivables and payables. At March 31, 2004, outstanding interfund balances consist of the following:

<u>Description</u>	<u>Interfund</u>	
	<u>Receivables</u>	<u>Payables</u>
General Fund	\$ 105,275	\$ -
Special Revenue Fund	-	91,631
Enterprise (Water) Fund	-	13,644
Total Interfund Receivables/Payables	<u>\$ 105,275</u>	<u>\$ 105,275</u>

NOTE 6 - FIXED ASSETS

The summary of changes in general fixed assets account group are:

<u>Description</u>	<u>Year Ended March 31, 2004</u>			
	<u>Balances 04/01/03</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balances 03/31/04</u>
Land and Improvements	\$1,496,898	\$1,644,930	\$ -	\$3,141,828
Town Hall and Improvements	2,142,631	165,331	-	2,307,962
Public Safety-Police	483,530	89,893	-	573,423
Comfort Station	77,530	-	-	77,530
Storm Water Management	-	304,389	-	304,389
Street Department	1,415,057	253,197	-	1,668,254
Boardwalk and Beach	1,210,875	115,225	-	1,326,100
Total General Fixed Assets	<u>\$6,826,521</u>	<u>\$2,572,965</u>	<u>\$ -</u>	<u>\$9,399,486</u>

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 6 - FIXED ASSETS (CONTINUED)

The summary of changes in the enterprise funds fixed assets are:

Description	Year Ended March 31, 2004			Balances 03/31/04
	Balances 04/01/03	Additions	Deletions	
Building	\$ 43,996	\$ -	\$ -	\$ 43,996
Plant and Water Distribution System	5,218,439	396,591	-	5,615,030
Vehicles and Equipment	<u>455,542</u>	<u>-</u>	<u>(77,000)</u>	<u>378,542</u>
Total Assets	5,717,977	396,591	(77,000)	6,037,568
Accumulated Depreciation	(1,727,959)	(192,868)	44,373	(1,876,454)
Net Book Value	<u>\$3,990,018</u>	<u>\$ 186,813</u>	<u>(\$ 32,627)</u>	<u>\$4,161,114</u>

NOTE 7 - EQUITY BALANCES

Change In Contributed Capital

Effective May 1989, all new water services within the Town of Bethany Beach are required to pay a one-time "impact fee". All impact fee monies received by the Town can be used, in accordance with Town Code only for construction of a new water system as well as for improvements to the existing water system. The following schedule is the summary of the change in "Contributed Capital" for the fiscal year ended March 31, 2004:

Balance at Beginning of Year	\$448,705
Additions:	
Impact Fees Collected - Town	\$ 73,750
Impact Fees Collected - Salt Pond	40,000
Impact Fees Collected - Savannahs Land	<u>7,500</u>
Total Additions	121,250
Subtractions:	
Water Plant Improvements	(435,374)
Balance at End of Year	<u>\$134,581</u>

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 7 - EQUITY BALANCES (CONTINUED)

Effective for the year ended March 31, 2004, the Town has recorded as revenue in the operating statement the impact fee monies, as required by GASBS No. 33. The standard also prevents governmental units from restating contributed capital recognized in prior periods until GASB issues additional statements requiring such restatement.

NOTE 8 - LONG-TERM DEBT OBLIGATIONS

The summary change in long-term debt obligations consisting of general obligation bonds and promissory notes is as follows:

Description	Year Ended March 31, 2004			
	Balances 04/01/03	Additions	Redemptions	Balances 03/31/04
General Obligation Bonds:				
Series 1994	\$2,180,000	\$ -	(\$ 110,000)	\$2,070,000
Bond Premium	263,561	-	(22,735)	240,826
Refunding Deferral	(201,907)	17,415	-	(184,492)
Series 1994, net	2,241,654	17,415	(132,735)	2,126,334
Water Bond, Series 1980	588,200	-	(588,200)	-
General Obligation Note, Series 2003	-	730,000	(77,265)	652,735
General Obligation Refunding Note, Series 2004	-	568,386	(60,053)	508,315
Totals	<u>\$2,829,854</u>	<u>\$1,315,783</u>	<u>(\$ 858,253)</u>	<u>\$3,287,384</u>

General Obligation Bonds

1994 Bond Issue

The 1994 General Obligation Bonds in the amount of \$2,750,000 represent the original principal portion. The bonds carry variable interest rates of 2.750% to 9.750% and have varying maturity dates through January, 2014. Bond proceeds were used to refinance the general obligation bonds, Series 1989. The following schedule is a summary of the 1994 Bond Issue, with a principal balance outstanding of \$2,070,000 at March 31, 2004. Bonds mature on November 1 of each year and interest is paid on May 1 and November 1 of each year.

Maturity Year	Principal Amount	Interest		Maturity Year	Principal Amount	Interest	
		Rate	Amount			Rate	Amount
2004	125,000	9.75	142,863	2010	200,000	5.30	59,890
2005	135,000	9.75	130,675	2011	215,000	5.30	49,290
2006	145,000	9.75	117,513	2012	225,000	5.30	37,895
2007	160,000	9.75	103,375	2013	240,000	5.30	25,970
2008	180,000	9.75	87,775	2014	250,000	5.30	13,250
2009	195,000	5.30	70,225				

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 8 - LONG-TERM DEBT OBLIGATIONS (CONTINUED)

General Obligation Note, Series 2003

The General Obligation Note, Series 2003, in the amount of \$730,000 represents the original principal portion. The note carries a fixed interest rate of 2.57%, having a maturity date of April 21, 2008. Note proceeds were used for the purposes of financing the costs of land acquisition for governmental purposes. The note is due in semi-annual installments of \$77,265, payable on the 21st of April and October. At March 31, 2004, the principal balance outstanding was \$652,735. The following is a repayment schedule:

<u>Year Ending March 31</u>	<u>Amount</u>
2005	\$154,530
2006	154,530
2007	154,530
2008	154,530
2009	<u>77,265</u>
Total Required Semi-Annual Payments	695,385
Less: Interest Portion	<u>42,650</u>
Total Principal Portion of Debt Obligation	<u>\$652,735</u>

General Obligation Refunding Note, Series 2004

The General Obligation Refunding Note, Series 2004, in the amount of \$568,368, represents the original principal portion. The note carries a fixed interest rate of 2.49%, having a maturity date of September 26, 2008. Note proceeds were used to refinance the Series 1980 Water Bond. The note is due in installments of \$60,053, payable on the 26th of March and September. At March 31, 2004, the principal balance outstanding was \$508,315. The following is a repayment schedule:

<u>Year Ending March 31</u>	<u>Amount</u>
2005	\$120,106
2006	120,106
2007	120,106
2008	120,106
2009	<u>60,053</u>
Total Required Semi-Annual Payments	540,477
Less: Interest Portion	<u>32,162</u>
Total Principal Portion of Debt Obligation	<u>\$508,315</u>

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 9 - LEASING ARRANGEMENTS

At March 31, 2004, the Town is involved in certain capital leasing arrangements. The following schedule summarizes property held under capital leasing arrangements.

Description (Maturity)	Cost Basis	Current Year Paid Payment	Year Paid Principal	Rental Payable
Ford Motor Credit Corporation:				
2002 Crown Victoria @ 2 (4/02)	\$ 41,164	\$ 14,528	\$ 12,930	\$ 13,706
2002 E250 Van (5/02)	12,552	6,948	6,063	6,489
2003 Crown Victoria (4/03)	20,853	7,442	7,442	13,411
Haico Leasing Company, Inc.:				
2003 Refuse Truck @ 2 (8/02)	<u>222,687</u>	<u>59,621</u>	<u>51,843</u>	<u>111,223</u>
Totals	<u>\$297,256</u>	<u>\$ 88,539</u>	<u>\$ 78,278</u>	<u>\$144,829</u>

Minimum future lease payments under capital lease obligations at March 31, 2004 for each of the remaining years in the aggregate are:

<u>For the Year Ending</u>	<u>Amount</u>
March 31, 2005	\$ 88,540
March 31, 2006	<u>67,064</u>
Minimum Future Lease Payments	155,604
Less: Amount Representing Interest Portion	(<u>10,775</u>)
Present Value of Minimum Lease Payments Required	<u>\$144,829</u>

The interest rate on the capitalized leasing arrangements varies and is imputed based on the lower of the Town's incremental borrowing rate at the inception of the lease or the lessor's implicit rate of return.

NOTE 10 - POST-EMPLOYMENT HEALTHCARE BENEFITS

The Town provides post-retirement healthcare benefits, for employees retiring prior to June 1, 1999, in accordance with Town statutes, to all employees who retire on or after attaining age 62 with at least 7 years of service. Currently four retirees are eligible for these benefits and all are receiving such benefits. The cost of healthcare benefits is recognized as an expenditure as claims are paid. During the fiscal year ended March 31, 2004 the cost of healthcare benefits for retirees was approximately \$9,407.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 11 - PENSION PLANS

The Town's pension benefits consist of the following two plans:

Profit Sharing Plan

The Town sponsors a defined contribution profit-sharing plan under Internal Revenue Service Section 401(a) covering all employees with one year of service (with at least 1,000 hours service), who have attained the age of 21. The Town is required to contribute 6% of base salary (bi-monthly compensation) of participants other than Town police, which includes deferrals under the Section 457 plan, but excludes overtime pay. The Town is required to contribute on behalf of the Town police the annual allocation received from the State of Delaware for police pensions. There are no participant contributions to this plan. Contributions to the plan vest immediately.

During the year, the Town's required and actual contributions amounted to \$34,588, which was 6% of its current year covered payroll of \$576,469.

Deferred Compensation Plan

The Town offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Town employees with one year of service, permits them to defer a portion of their salary until future years. Participation in the plan is optional and participants elect how their salary deferrals are invested. The deferred compensation is not available to employees until termination, retirement, death or unforeseeable emergency. The Town matches contributions of each participant up to 5% of base salary. The Town's contribution was \$48,240 for the fiscal year.

All compensation amounts deferred under the plan, all property and rights purchased with those amounts, and all income attributable to those amounts, property, or rights are held for the exclusive benefit of the participants and their beneficiaries.

Investments are managed by ING Life Insurance and Annuity Company, the plan trustees. Investment options include the following: stock funds, bond funds, and money market accounts, including various risk alternatives.

NOTE 12 - COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are outstanding various commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The Town does not anticipate losses as a result of these transactions.

TOWN OF BETHANY BEACH, DELAWARE
NOTES TO THE GENERAL PURPOSE FINANCIAL STATEMENTS
MARCH 31, 2004

NOTE 12 - COMMITMENTS AND CONTINGENCIES (CONTINUED)

Government Grant/Award Programs

The Town participates in a number of federally and state assisted programs. These programs are subject to program compliance audits by the grantors or their representatives. Accordingly, the Town's compliance with applicable program requirements will be established at some future date. The amount, if any, of expenditures, not already disclosed, which may be disallowed by the granting agencies cannot be determined at this time although the Town expects such amounts, if any, to be immaterial.

ADDITIONAL REPORT

HEFFLER, RADETICH & SAITTA L.L.P.

CERTIFIED PUBLIC ACCOUNTANTS

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Mayor and Town Council
Town of Bethany Beach
Bethany Beach, Delaware

We have audited the general purposes financial statements of the Town of Bethany Beach, Delaware, as of and for the year ended March 31, 2004, and have issued our report thereon dated June 17, 2004. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Town's general purpose financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, and Town Council and is not intended to be and should not be used by anyone other than these specified parties.

Heffler, Radetich & Saitta, LLP

Philadelphia, Pennsylvania
June 17, 2004